FSC-207-A	12/2/96
SUBJECT: Forsyth Contracted Private Label Restructure	
Response Required? _X_ Yes, See Attached Form	
Date Required: January 15, 1997	

DISTRIBUTION:

X	AVP	X	KAM	___	DM
X	RSM	X	AM	___	RM
X	RBM	X	Reg.Mil./DF Mgr.	___	MIL
X	ROM	X	AE	___	REP

The percentage of industry cigarette sales continues to increase in the full price segment. While consumer switching back to full price brands is good for the industry, it does put extreme pressure on lowest tier brand performance. We are pleased to report, however, that even though Forsyth Private Label volume is down in 1996, we continue to out-perform the rest of the industry's lowest entries. While all other manufacturers are flat or down in Share of Lowest percent, Forsyth has shown a 5% gain up to 42% share in the lowest tier category through mid-year 1996. We believe the primary reason for our continued growth in Share of Lowest is the overall values that the "Bundling Process" brings to our entire portfolio of brands and your ability and success in relating these values to our customers.

The second reason for our success is program flexibility. Unlike many of our competitors, we do not believe that merely having the everyday lowest price is the answer. Therefore, we have the ability to vary off-invoice and alliance accrual as needed by account. We also give the private label partner semi-annual share of category incentives based on performance. Some accounts use this share of category payment to protect their margins, while others use it in pricing to the consumer. On July 1, 1996, we enhanced this part of our program by guaranteeing the first $.25 of this maximum $.50 possible payout. In doing this, we increased the flexibility of our overall program by 1) ensuring the partner of minimum earnings from S.O.C., 2) changing this $.25 per carton payout from semi-annual to monthly by adding it to their alliance accrual fund, or giving it to the account in off-invoice if needed for everyday pricing.

As a result of the positive response from the July, 1996 change, as well as the additional pressure from competitors in the lowest tier, we are pleased to announce that effective January 1, 1997, **we will further enhance the flexibility of our Forsyth Private Label partners' program by guaranteeing the second $.25 of the Share of Category potential to all of our qualifying wholesale and retail partners. A qualifying wholesale and retail partner is one that does not disadvantage RJR in our merchandising and promotional programs.** We will make this extra payment to qualifying accounts by automatically adding it to the contracted accounts alliance accrual at the end of each month. This change accomplishes the following:

1. Effectively increases the value of our program to all qualifying contracted Retail PL accounts who have less than a 75% share of savings category and all qualifying contracted Direct Accounts who have less than a 50% share of savings category with RJR.

2. Offers immediate earnings payout at the end of each month versus having to wait until the end of the calendar six month period.

3. Reduces the administrative burden both on the field sales organization and RJR home office personnel by up to two-thirds. Beginning with the first half of 1997 period, you will only receive a Share of Category Form for qualifying contracted retail accounts on DORAL S.O.C.

4. Allows those who need the extra $.25 to meet competition to do so where necessary. If not needed to be competitive, the account, with your approval, can take some or all of this payment to its bottom line.

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Source: https://www.industrydocuments.ucsf.edu/docs/xnvp0000

5. Creates another incentive for wholesalers and retail chains who disadvantage RJR in the on-going display and promotion of our full price and savings brands (i.e.; Philip Morris exclusives at retail) to reconsider our programs. Since these accounts will not be guaranteed the extra $.25 per carton payout, you should fill out the attached form and return to Forsyth by January 15, 1997. We will run the S.O.C. information for you semi-annually and the account will be paid only on actual share of category earned above the first $.25 rate. It is imperative that you return this form so the account does not get rewarded for behavior that is contrary to our best interests.

   This enhancement in our program should be presented to all of our contracted private label accounts as soon as possible, but no later than January 15, 1997, before the payout appears in their Alliance Accrual statements. In discussing this enhancement with our partners who already maximize PL Share of Category, you should key in on the above #2 and #4 advantages only as we do not want to encourage them to allow their present Share of Category to slip.

Questions and Answers

- Do I have to fill out any forms or call anyone to affect this Share of Category change for qualifying wholesale and retail partners?

  No. Except for contacting your assigned Forsyth Private Label contracted accounts this change requires no extra effort on your part.

- Can I ask Customer Services to add this $.25 payment to the partner's Off-Invoice amount instead of adding it to the account's Alliance Accrual Fund?

  Due to the "guerrilla warfare" tactics being employed by some of our competitors in specific markets, we believe that our partners would be better served by building up their Alliance Accrual balance to fight these specific battles where they occur. In many cases, the maximum off-invoice of $2.30 per carton is satisfactory. If the accounts were to increase their off-invoice using all of the S.O.C. allowance, they would be spending more than necessary in some outlets and not have enough alliance reserve to spend incrementally to meet competitive pressures in others. Also, if the incremental dollars are not needed, the increased off-invoice spending does not allow the account to take any of it's Share of Category earnings to its bottom line. Finally, by putting all of the Share of Category earnings to off-invoice, we would be telegraphing to our competitors our strategy and possibly cause them to react by increasing their off-invoice/rebates.

- How does this change affect the "bundling process"?

  This change affects our "bundling process" in that all accounts will receive the maximum S.O.C. payout of $.50 per carton either through their Alliance Accrual Fund or in combination with off-invoice.

- How does this enhancement to our contracted private label program affect my retail accounts who have a distributor's PL as their EDLP?

  This enhancement does not affect them since the wholesaler is the one who receives the PL Share of Category payment, not the EDLP retailer. The EDLP retailers will continue to be eligible for the DORAL S.O.C. payment if they are a Level III merchandising accrual partner and you have signed them to the DORAL S.O.C. Agreement.

- I have a chain that has kiosk locations (non-walk in) primarily and has no merchandising programs with any manufacturers. Do they qualify for the additional guaranteed $.25 payment?

  As long as the chain treats all manufacturers the same, they qualify for this guaranteed payment. However, accounts that are Philip Morris exclusive do not. They will get paid only on their actual S.O.C. earned.

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- I have a wholesaler who works competitor programs but refuses to work ours. Does this wholesaler still qualify for the second guaranteed $.25?

  If a wholesaler does not treat RJR equally with other manufacturers, it does not qualify for the second $.25 guarantee.

Please notify Forsyth by January 15, 1997, using the attached form, of any accounts who do not qualify for the second $.25 enhancement.. In these cases, we will continue to send you the semi-annual S.O.C. form for actual payment authorization.

I know you will agree that this enhancement will go a long way in re-confirming the relationship with our Forsyth Private Label partners. You should use every opportunity to leverage this change with our private label partners by ensuring they fully understand the value their private label brand brings to the overall earning potential of the RJR portfolio.

Program Contacts: Your Region Business Manager
Your Area Manager of Operations

R. J. REYNOLDS TOBACCO COMPANY

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ACCOUNT EXCEPTIONS TO GUARANTEED S.O.C. PAYMENT ENHANCEMENT

DATE: _____

ACCOUNT NAME: _____

ACCOUNT CHAIN ID/SIS #: _____

REASON FOR DISQUALIFICATION OF GUARANTEE:

_____

_____

_____

_____

_____

PLEASE NOTE THAT THIS DISQUALIFICATION OF GUARANTEE IS FOR THE SECOND $.25 ON SHARE OF CATEGORY AND IN NO WAY AFFECTS THE FIRST $.25 GUARANTEED S.O.C. PAYOUT AS STATED IN FSC 107-A, DATED 6/17/96.

RJR REPRESENTATIVE: _____
(PRINT)

DIVISION #: _____

SIGNATURE: _____

RETURN TO: FORSYTH TOBACCO PRODUCTS
FAX: 910-741-2685

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